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UNCLAS HARARE 002747

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR J FRAZER
USDOC FOR 2037 DIAMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON
PARIS FOR R BOUHAKER
CHARLESTON FOR D SIMMONS
AF/EX BUD

1E. O. 12958: N/A

TAGS: [ECON](#) [EPET](#) [EFIN](#) [ETRD](#) [ZI](#)

SUBJECT: Govt shuts bureaux de change

1. Summary: Hundreds of bureaux de change have closed their doors as part of a GoZ strategy to kill the parallel currency market. Many bureaux are moving to more discreet locations, while several banks continue to exchange money at parallel rates. End Summary.

"Talking down" the dollar

2. As part of its 2003 budget plan, the GoZ ordered bureaux to cease operations on Saturday. The GoZ is trying to solve its acute foreign exchange crisis by eliminating the parallel market, where the current rate of Z\$ 1580: US\$ 1 is nearly 30-fold the official rate of 55:1. However, this is an attack on psychological rather than fundamental grounds, with the GoZ "talking down" the rate. The official media claim the street price has fallen to 600:1, though our quick check of local prices indicated rates around 1600-1700:1, a drop of 10-15 percent from the highs of 3 weeks ago. The USG has most recently purchased Zimdollars at a rate of 1580:1 in parallel markets abroad.

3. A local source tells us street-side bureaux are relocating to less obvious venues, mostly tucked away in office buildings. Fearing reprisals, foreign banks such as Barclays are no longer exchanging at parallel rates. On the other hand, indigenous banks continue to process these ostensibly illegal transactions. Ironically, the GoZ has made no effort to close down Western Union, whose local clients receive US\$ 4 million in monthly remissions in U.S. notes from relatives living abroad. Presumably, the GoZ realizes that these recipients of U.S. dollars in cash are not purchasing Zimdollars at 55:1.

Comment

4. Obviously, the GoZ cannot destroy a parallel market that is supported by macroeconomic fundamentals and expectations. For the present, however, the GoZ has succeeded in raising enough doubts that it can kill the parallel market to shore up the Zimdollar's value by at least 15 percent. (The U.S. dollar's dip may also reflect a correction of temporary overshoot, since the greenback has doubled in value in about 2 months, arguably appreciating faster than fundamentals would dictate.) Until Zimbabwe addresses its loose money supply, negative GDP growth and high inflation rate, we expect fundamentals to eventually send the Zimdollar to new depths.

Sullivan